

**City of Marquette, Michigan
Fire – Police Retirement System**

FINANCIAL STATEMENTS

June 30, 2004 and 2003

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <i>City of Marquette Fire-Police Retirement System</i>	County <i>Marquette</i>
Audit Date <i>June 30, 2005</i>	Opinion Date <i>November 12, 2004</i>	Date Accountant Report Submitted to State: <i>December 28, 2004</i>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

Certified Public Accountant (Firm Name) <i>Anderson, Tackman & Co. P.C.</i>			
Street Address <i>102 W. Washington, Suite 109</i>	City <i>Marquette</i>	State <i>MI</i>	ZIP <i>49855</i>
Accountant Signature <i>Abbea Hills, CPA</i>			

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Retirement Board
City of Marquette, Michigan
Fire - Police Retirement System
Marquette, Michigan

We have audited the accompanying financial statements of the Fire - Police Retirement System, Pension Trust Fund of the City of Marquette, Michigan as of June 30, 2004 and 2003 and for the years then ended. These financial statements are the responsibility of the City of Marquette, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fire - Police Retirement System, Pension Trust Fund of the City of Marquette, Michigan as of June 30, 2004 and 2003 and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

The Supplementary Information listed in the table of contents, is not a required part of the financial statements. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 12, 2004 on our consideration of the City of Marquette, Michigan's internal control structure and on its compliance with laws and regulations.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

November 12, 2004

City of Marquette, Michigan
Fire - Police Retirement System
STATEMENTS OF PLAN NET ASSETS
For the years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
ASSETS		
Cash and short-term investments	\$ 485,709	\$ 502,752
Accrued interest	101,038	140,352
Investments - at fair value:		
United States Government Securities	4,409,606	4,759,600
Domestic Corporation Bonds	4,352,385	5,959,562
Domestic Corporation Stocks	15,639,120	12,908,557
Government National Mortgage Association	6,737	11,926
TOTAL ASSETS	<u>24,994,595</u>	<u>24,282,749</u>
LIABILITIES		
Accounts payable and other	(160)	(246)
NET ASSETS HELD IN TRUST FOR PENSION	<u>\$ 24,994,435</u>	<u>\$ 24,282,503</u>

The accompanying notes to financial statements are an integral part of this statement.

City of Marquette, Michigan
Fire - Police Retirement System
STATEMENTS OF PLAN NET ASSETS
For the years ended June 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
Additions:		
Contributions:		
Employee	\$ 130,190	\$ 132,935
Total Contributions	<u>130,190</u>	<u>132,935</u>
Investment income:		
Net appreciation (depreciation) in fair value	1,327,438	381,349
Interest and dividends	<u>592,642</u>	<u>984,658</u>
Net Investment Income (Loss)	<u>1,920,080</u>	<u>1,366,007</u>
Total Additions (Deductions)	2,050,270	1,498,942
Deductions:		
Benefits and annuity withdrawals	1,235,591	1,162,592
Investment expense	87,637	91,414
Administrative expense	<u>15,110</u>	<u>7,791</u>
Total Deductions	<u>1,338,338</u>	<u>1,261,797</u>
Net Increase (Decrease)	711,932	237,145
Net Assets Held in Trust for Pension Benefits:		
Beginning of year	24,282,503	24,045,358
END OF YEAR	<u>\$ 24,994,435</u>	<u>\$ 24,282,503</u>

The accompanying notes to financial statements are an integral part of this statement.

City of Marquette, Michigan
Fire – Police Retirement System
NOTES TO FINANCIAL STATEMENTS
June 30, 2004 and 2003

NOTE A – ACCOUNTING POLICY:

Summary of Significant Accounting Policies

Basis of Accounting - The City of Marquette Fire - Police Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

NOTE B – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION:

Plan Description

The City of Marquette is the administrator of a single-employer public employee retirement system ("System") established and administered by the City of Marquette to provide pension benefits for the Fire and Police Department employees. The Fire and Police System is considered part of the City of Marquette's financial reporting entity and is included in the City's financial report as a pension trust fund. The City's payroll for employees covered by the System for the year ended June 30, 2004 was \$2,603,779; the City's total payroll was \$9,642,329.

Current membership in the Plan comprises the following as of December 31, 2003, the latest actuarial valuation date:

<u>Group</u>	
Retirees and beneficiaries currently receiving benefits	51
Vested terminated members	2
Active employees:	
Fire	26
Police	<u>35</u>
TOTAL	<u>114</u>

NOTE B – PLAN DESCRIPTION AND CONTRIBUTION INFORMATION (Continued):

The qualifying full-time employees of the Police Department and Fire Department are eligible to participate in the System. Benefits vest after ten years of service. Employees who retire at or after the age of 50 with 25 or more years of credited service or age 60 with 10 or more years of service, are entitled to annual retirement benefits, payable monthly for life, in an amount equal to a minimum of \$600 a month, or 2.5 percent of a three year average final compensation times the first twenty-five years of service plus 1 percent (1.5 percent for Police members) of average final compensation times years of service in excess of twenty-five years. The System also provides death and disability benefits.

Non-duty disability benefits are payable upon the total and permanent disability of a member with 5 or more years of service. Benefits up to age 55 are paid equaling 1.5% of the average final compensation times the years of service. Benefits after the age of 55 are the same as benefits received from service retirement.

Disability benefits from the total or permanent disability of a member in the line of duty are payable, up to the age of 55, (age 50 for Firefighters) at 50% of the average final compensation. Benefits after the age of 55 are the same as benefits from service retirement with service credit from date of disability to age 55, except for firefighters, whose full retirement is the equivalent of 25 years of service that the member would have had if not disabled.

If an active employee dies in the line of duty, the beneficiary will receive the same amount that was paid by worker's compensation.

If an active employee with 20 or more years of service (10 years required for fire members) dies not in the line of duty, the surviving spouse, if any, will receive an amount equal to the accrued straight line pension actuarially reduced in accordance with option I election.

Contributions

Covered employees are required by statute to contribute 5 percent of their salary to the System. If an employee leaves covered employment or dies before 25 years of service, accumulated employee contributions plus related investment earnings are refunded to the employee or designated beneficiary. Benefit and contribution provisions are established by State statute and City ordinance.

The City's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year ended June 30, 2004 were determined using an entry age actuarial funding method. Unfunded actuarial accrued liabilities were amortized as a level percent of payroll over an open period of 21 years for police and 20 years for fire.

During the years ended June 30, 2004 and 2003 no contributions were deemed necessary in accordance with the contribution requirements as determined by an actuarial valuation of the System.

NOTE C – ACT 345 RESERVES:

Reserve for employee contributions consists of employee contributions, based upon 5% of gross salaries, and investment earnings, less amounts transferred to reserve for retired employee benefits.

Reserve for employer contributions consists of employer contributions, based upon actuarial valuation of current and past service costs, and investment earnings, less amounts transferred to reserve for retired employee benefits.

Reserve for retired employee benefits represents the actuarial valuation of pensions payable to retired employees, or on behalf of deceased employees, and investment earnings. The transfer is made from the above named reserve accounts at the time of retirement or death of an employee. There were fifty-one such pensions payable at June 30, 2004 and fifty such pensions payable at June 30, 2003.

Investment earnings are allocated to the reserves based on the following rates:

Employee Contributions	2% of the average balance of the Reserve Account.
Retired Employee Benefits	7% of the average balance of the Reserve Account.
Employer Contributions	Excess balance in the unallocated investment earnings reserve after interest has been allocated to the Employee Contribution Reserve and to the retired employee benefits Reserve Fund.

The composition of the reserve balances at year end are as follows:

	<u>2004</u>	<u>2003</u>
Employee contributions	\$ 1,465,258	\$ 1,308,621
Employer contributions	12,353,257	11,339,811
Retired employees	10,646,453	11,124,334
Pension enhancement	529,467	509,737
Fire Leave conversion	-	-
	<u>\$24,994,435</u>	<u>\$24,282,503</u>

NOTE D – DEPOSITS AND INVESTMENTS:

The carrying amounts of the System's deposits with financial institutions was \$88,616 and the bank balance was \$88,616. The bank balance is categorized as follows:

Amount insured by the FDIC or collateralized with securities held by the City in its name	<u>\$100,000</u>
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NOTE D – DEPOSITS AND INVESTMENTS (Continued):

Investments

The System's investments are categorized below to give an indication of the level of risk assumed at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party, but not in the System's name.

<u>Investment Type</u>	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Cost Value</u>	<u>Market Value</u>
U.S. Treasury Notes/Bonds	\$ -	\$ -	\$4,629,912	\$4,629,912	\$4,409,606
Common Stock	-	-	14,786,150	14,786,150	15,639,120
Corporate Bonds	-	-	4,269,564	4,269,564	4,352,385
Government National Mortgage Association	-	-	6,326	6,326	6,737
	<u>\$ -</u>	<u>\$ -</u>	<u>\$23,691,952</u>	<u>\$23,691,952</u>	<u>\$24,407,848</u>

NOTE E – CONCENTRATION OF INVESTMENTS:

The fair value of individual investments that represent 5.0% or more of the Plan's net assets are as follows:

Barclays Global Investors Fund – 986,003.05 Units	<u>\$8,673,902</u>
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SUPPLEMENTAL FINANCIAL INFORMATION

**City of Marquette, Michigan
Fire – Police Retirement System
Required Supplementary Information**

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date <u>December 31</u>	(a) Actuarial Value of <u>Assets</u>	(b) Entry Age Actuarial Accrued <u>Liability</u>	(b-a) Unfunded Accrued Liability <u>(UAL)</u>	(a/b) Funded <u>Ratio</u>	(c) Annual Covered <u>Payroll</u>	[(b-a)/c] UAL as a Percentage of <u>Covered Payroll</u>
1992	\$13,878,662	\$11,219,729	\$(2,658,933)	124%	\$1,867,246	- %
1993	15,068,267	11,482,347	(3,585,920)	131	1,865,263	-
1994	15,843,231	12,212,035	(3,631,196)	130	1,946,521	-
1995	16,973,947	14,169,723	(2,804,224)	120	2,024,755	-
1996	18,118,588	15,362,498	(2,756,090)	118	2,084,753	-
1997	19,918,405	16,102,478	(3,815,927)	124	2,234,522	-
1998	22,301,497	17,189,981	(5,111,516)	130	2,248,447	-
1999	24,690,249	18,070,456	(6,619,793)	137	2,381,956	-
2000	26,681,186	18,922,286	(7,758,900)	141	2,477,522	-
2001	27,995,675	20,310,485	(7,685,190)	138	2,595,193	-
2002	27,832,278	22,046,809	(5,785,469)	126	2,669,333	-
2003	27,564,327	23,337,401	(4,226,926)	118	2,717,024	-

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Fiscal Year Ending June 30</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
1992	\$246,778@	100.00%
1993	239,968@	100.00%
1994	248,045@	100.00%
1995	198,638@	100.00%
1996	207,560@	100.00%
1997	206,674@	100.00%
1998	220,008@	100.00%
1999	202,247@	100.00%
2000	-	-
2001	-	-
2002	-	-
2003	-	-

@ In each the employer contributes exactly the actual dollar amount recommended by the actuary plus 5.0% of the actual pay during the fiscal year of both the fire chief and police chief.

**City of Marquette, Michigan
Fire – Police Retirement System
Required Supplementary Information**

NOTES TO THE REQUIRED SCHEDULES

The required contribution was determined using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.0% per year, compounded annually, (b) projected salary increases of 4.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.00% to 3.50% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period. The unfunded actuarial accrued liability is being amortized as a level percent of projected payroll on an open basis. The amortization period on December 31, 2003 was 21 years for police and 20 years for fire.

**City of Marquette, Michigan
Fire – Police Retirement System
Required Supplementary Information**

ACTUARIAL INFORMATION

Valuation Date	December 31, 2003
Actuarial Cost Method	Individual Entry Age
Amortization Method	Level Percent Open
Remaining Amortization Period	21 Years Police and 20 Years Fire
Asset Valuation Method	5 year – smoothed market
Actuarial Assumptions:	
Investment Rate of Return	7.0%
Projected Salary Increases including inflation at	4.5% - 8.0%

City of Marquette, Michigan
Fire - Police Retirement System
Required Supplementary Information

SCHEDULE OF CHANGES IN RESERVES

	Reserve for Employee Contributions	Reserve for Employer Contributions	Reserved for Retired Employee Benefits	Reserved for Pension Enhancement	Reserved for Fire Leave Conversion	Total
Balance at June 30, 2002 at Fair Market Value	\$ 1,262,487	\$ 11,939,931	\$ 10,457,397	\$ 356,285	\$ 29,258	\$ 24,045,358
Add:						
Employee contributions	132,935	-	-	-	-	132,935
Unrealized appreciation	-	381,349	-	-	-	381,349
Interest and dividends	23,424	201,976	730,806	28,452	-	984,658
Subtotal	156,359	583,325	730,806	28,452	-	1,498,942
Deductions:						
Refunds	(15,536)	-	-	-	-	(15,536)
Pension payments	-	-	(1,147,056)	-	-	(1,147,056)
Administrative expenses	-	(99,205)	-	-	-	(99,205)
Subtotal	(15,536)	(99,205)	(1,147,056)	-	-	(1,261,797)
Transfers:						
Enhancement Reserve	-	(125,000)	-	125,000	-	-
Fire leave conversion	-	-	29,258	-	(29,258)	-
Actuarial provisions for pension benefits for current retired members	(94,689)	(959,240)	1,053,929	-	-	-
Subtotal	(94,689)	(1,084,240)	1,083,187	125,000	(29,258)	-
Balance at June 30, 2003 at Fair Market Value	1,308,621	11,339,811	11,124,334	509,737	-	24,282,503

(Continued)

(Continued)

	Reserve for Employee Contributions	Reserve for Employer Contributions	Reserved for Retired Employee Benefits	Reserved for Pension Enhancement	Reserved for Fire Leave Conversion	Total
Add:						
Employee contributions	\$ 130,190	\$ -	\$ -	\$ -	\$ -	\$ 130,190
Unrealized appreciation	-	1,327,438	-	-	-	1,327,438
Interest and dividends	26,447	(211,245)	736,210	41,230	-	592,642
Subtotal	<u>156,637</u>	<u>1,116,193</u>	<u>736,210</u>	<u>41,230</u>	<u>-</u>	<u>2,050,270</u>
Deductions:						
Refunds	-	-	-	-	-	-
Pension payments	-	-	(1,214,091)	(21,500)	-	(1,235,591)
Administrative expenses	-	(102,747)	-	-	-	(102,747)
Subtotal	<u>-</u>	<u>(102,747)</u>	<u>(1,214,091)</u>	<u>(21,500)</u>	<u>-</u>	<u>(1,338,338)</u>
Transfers:						
Enhancement Reserve	-	-	-	-	-	-
Fire leave conversion	-	-	-	-	-	-
Actuarial provisions for pension	-	-	-	-	-	-
benefits for current retired members	-	-	-	-	-	-
Subtotal	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at June 30, 2004 at Fair Market Value	<u>\$ 1,465,258</u>	<u>\$ 12,353,257</u>	<u>\$ 10,646,453</u>	<u>\$ 529,467</u>	<u>\$ -</u>	<u>\$ 24,994,435</u>